

Before the
Federal Communications Commission
Washington, DC 20554

In the Matter of)	
)	
2000 Biennial Regulatory Review)	
Comprehensive Review of the)	CC Docket No. 00-199
Accounting Requirements and)	Phase 2
ARMIS Reporting Requirements for)	
Incumbent Local Exchange Carriers:)	
Phase 2 and Phase 3)	

Comments of Iowa Telecommunications Services, Inc.

Iowa Telecommunications, Inc. (Iowa Telecom), by its attorneys, respectfully submits its initial Phase 2 comments on the Commission's Notice of Proposed Rulemaking in the above-referenced docket concerning the Commission's efforts to, *inter alia*, eliminate certain accounting and reporting requirements applicable to "mid-sized" carriers.¹

I. Background

Iowa Telecom is a rural telephone company serving territory in the state of Iowa. It commenced operations on July 1, 2000 following the purchase of the Iowa local exchange properties operated by Verizon Midwest. Iowa Telecom qualifies as a rural telephone company as defined by Sections 3(37)(A), (C) and (D) of the Communications Act of 1934, as amended (the "Act").² Because Iowa Telecom has recently commenced operations, its revenues are such that, under current Commission rules, Iowa Telecom

¹ See 2000 Biennial Regulatory Review – Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2 and Phase 3, CC Docket 00-199, *Notice of Proposed Rulemaking*, FCC 00-364 (rel. October 18, 2000) ("Notice").

² 47 U.S.C. Sections 153(37)(A), (C) and (D).

does not currently maintain a Cost Allocation Manual (CAM) nor has it filed ARMIS reports.

II. CAM and ARMIS Requirements Should Be Eliminated For All Midsize Carriers

Iowa Telecom applauds the Commission's efforts to reduce regulations applicable to "mid-sized" carriers. Iowa Telecom files these comments in support of the proposal for the immediate elimination of all CAM and ARMIS filings for all mid-sized carriers.³ Specifically, mid-size LECs should be relieved of all requirements to prepare and file a CAM, conduct CAM audits and file ARMIS reports. Iowa Telecom submits that, because the Commission has already determined that all mid-size carriers qualify for reduced regulation based on different needs and services of these carriers,⁴ it is reasonable to now reduce the burden on those mid-sized carriers.

However, at a minimum if the FCC determines not to adopt this proposal, it should immediately eliminate these burdens with respect to smaller mid-sized carriers. Iowa Telecom believes that it would be reasonable to approach this change in two steps. First, to grant relief to smaller mid-sized carriers, the Commission should immediately increase the indexed revenue threshold from the current \$114 million to \$750 million. As discussed herein, unnecessary reporting burdens inflict a more severe adverse impact on smaller mid-sized carriers relative to much larger (but still "mid-sized") carriers. Finally, granting immediate relief to smaller mid-sized carriers should not materially impact the

³ Notice at para. 80.

⁴ Notice at para. 84.

level of data available to the Commission or its ability to address complaints filed by interexchange carriers.

Second, after a period of two years and coinciding with the 2002 biennial review process, ARMIS and CAM requirements should be eliminated for all mid-sized carriers. During the next two years, the Commission and industry can evaluate the beneficial consequences of its first step and monitor the level of competition experienced by larger mid-sized carriers to evaluate further relief during the next biennial review.

A. Relief is Appropriate for Smaller Mid-Sized Carriers.

Currently, mid-sized carriers above the indexed revenue threshold must annually file a series of ARMIS reports as well as annually file a CAM setting forth the cost allocation procedures that are used to allocate costs between regulated and nonregulated services. Iowa Telecom's two-step proposal would immediately eliminate ARMIS and CAM requirements for smaller "mid-sized" carriers falling below a revenue threshold of \$750 million.⁵ Historically, the CAM and ARMIS requirements were targeted to the largest price cap carriers. As this Commission has pointed out, "staff analysis and usage of data provided in the ARMIS tables had mostly been limited to the largest incumbent LECs because they have the greatest opportunities and incentives for shifting costs between services."⁶

Iowa Telecom's proposal is appropriate, in part, given the expansive breadth of the current mid-size category which treats carriers with only \$114 million in annual

⁵ Based on recent revenue data, the following carriers would still be required to maintain and file a CAM and file ARMIS reports: Verizon, SBC, Qwest, BellSouth, Sprint and C-TEC. These carriers operate well over 90 percent of the nations access lines.

⁶ *ARMIS Reduction Report and Order*, 14 FCC Rcd at 11449, para 12.

revenue the same as carriers with as much as \$7 billion in annual revenue. Carriers like Iowa Telecom on the extreme lower end of this revenue spectrum should not be forced to bear the same regulatory burden as a carrier at the upper end of the range. This Commission has recognized that mid-sized carriers, even those earning up to \$7 billion in annual revenues, often “have limited resources” and the cost of compliance with the CAM and ARMIS requirements may have a disproportionately more severe impact on mid-sized carriers.⁷ The burden on the smallest mid-sized carriers is more onerous, particularly for those like Iowa Telecom operating in high cost rural areas that have significantly fewer customers from which to recover the costs of regulatory compliance.

To a smaller carrier like Iowa Telecom, the burden of compliance with these requirements is not insignificant. Roseville Telephone Company recently estimated that it would cost it approximately \$272,000 annually in specific labor costs to comply with ARMIS filing requirements.⁸ Similarly, Cincinnati Bell has stated that, in 1997 it cost more than \$283,000 to comply with ARMIS.⁹ As a new carrier that is still hiring its first employees and deploying new financial systems, Iowa Telecom expects its costs associated with these reporting requirements to exceed \$185,000 annually.

Iowa Telecom submits that the money used for regulatory reporting is better spent in upgrading the telecommunications infrastructure purchased from its predecessor, Verizon. If Iowa Telecom is relieved of these burdensome regulatory requirements, it

⁷ Notice at para. 84.

⁸ *Request for Extension of Time to File ARMIS Reports, Roseville Telephone Company* (filed December 1, 2000) (This cost estimate did not include one time expenses such as for the development of software).

⁹ *Comments of Cincinnati Bell Telephone*, in 1998 Biennial Regulatory Review, Review of ARMIS Reporting Requirements, CC Docket No. 98-117 (filed August 20, 1998).

would invest the savings to improve its facilities to, for example, hasten the deployment of advanced services such as digital subscriber line services. Due in part to the nature of the plant it acquired as well as the long loop lengths associated with service in rural areas, Verizon and now Iowa Telecom, lag behind other parts of the country when it comes to deployment of digital subscriber line services. Therefore, elimination of burdensome and expensive regulatory requirements for smaller carriers like Iowa Telecom that are committed to reinvesting in rural America will aid in narrowing the urban/rural “digital divide.”

III. Elimination Of Regulatory Burdens Is Appropriate As Iowa Telecom Is Subject To Meaningful Economic Competition.

The statutory biennial regulatory review process requires the Commission to periodically review its regulations and “determine whether any such regulation is no longer necessary in the public interest as the result of meaningful economic competition between providers of such service.”¹⁰ Iowa Telecom and other small, medium and large mid-sized carriers are now experiencing meaningful economic competition justifying elimination of the CAM and ARMIS requirements.

Elimination of ARMIS and CAM requirements for smaller carriers like Iowa Telecom is an important step toward leveling the rural playing field. Iowa Telecom is currently experiencing significant facilities-based competition from neighboring rural incumbent local exchange carriers and municipal utility entities that are overbuilding

¹⁰47 U.S.C. § 161.

Iowa Telecom's exchanges. Iowa Telecom has experienced significant loss of its customer base in sixteen of its exchanges¹¹. Ironically, it is the "one size fits all" regulatory environment for midsize carriers that has contributed to Iowa Telecom's vulnerability to overbuild competition.

Iowa Telecom's competitors are predominately affiliated with rural incumbent LECs that benefit from universal service support, higher interstate access charges and far less regulatory requirements than Iowa Telecom. Unlike their competitors, Iowa Telecom receives no high cost loop support from the Universal Service Fund and its interstate access rates are significantly lower. The less stringent regulatory framework afforded the rural ILEC competitors enables them to keep local rates at lower levels while generating sufficient revenue to support network investments to overbuild Iowa Telecom's neighboring exchanges.

IV. Elimination Of CAM And ARMIS Requirements Will Not Significantly Hamper Commission Data Collection Or Enforcement Efforts

Immediate elimination of CAM and ARMIS requirements for smaller mid-sized LECs will not impact Commission processes. The focus of the Commission's oversight is squarely on interstate access rates. The Commission's CAM requirements appear to be designed in part to monitor the shifting of costs between regulated and non-regulated activities as a method of monitoring interstate access rates. However, the competitive pressure from facilities-based competitors, as described above, will keep access rates in

¹¹ The exchanges affected by this overbuild competition are Armstrong, Belle Plaine, Bennett, Conrad, Coon Rapids, Delmar, Eldora, Forest City, Lowden, Marengo,

check. In addition, elimination of ARMIS requirements for smaller carriers should have little impact because, under Iowa Telecom's plan, data will continue to be collected from larger mid-sized carriers and the largest LECs representing over 90% of the nation's access lines. Should the Commission see the need for additional data, it has ample authority to request it.

In addition, mid-sized carriers will continue to be subject to Sections 201 and 202 of the Act which require carriers to, *inter alia*, charge just, reasonable and non-discriminatory access rates. The Commission's enforcement capabilities, including the Section 208 complaint process, is always available to the public to ensure compliance with these and other provisions of the Act and the Commission's Rules. Interexchange carriers, like AT&T, have ample resources to take part in this process. Indeed, greater emphasis on the enforcement process is consistent with the creation of the Enforcement Bureau and follows the transition of the Commission from a market regulator to a market facilitator.¹²

Oxford, Oxford Junction, Solon, Stanwood, Steamboat Rock & Tiffin. The line losses in these exchanges range from 20% to 98%.

¹². See *A New FCC for the 21st Century, Draft Strategic Plan*, Federal Communications Commission (rel. Aug. 12, 1999), at 3.

Conclusion

For the reasons set forth above, the Commission should adopt rules eliminating CAM and ARMIS reporting for all mid-sized carriers or adopt the two-step approach to elimination of CAM and ARMIS requirements for mid-sized carriers as described herein.

Respectfully submitted,

**IOWA TELECOMMUNICATIONS
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